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FINANCIAL RESOURCES AND MECHANISMS

Draft decision submitted by the Chairman

Financial resources and mechanisms

1. The Commission on Sustainable Development recalls the financial recommendations and commitments set out in chapter 33 of Agenda 21, especially those in paragraphs 33.13 and 33.14 thereof.

2. The Commission emphasizes that, in general, the financing for the implementation of Agenda 21 will come from a country's own public and private sectors. For developing countries, particularly the least developed countries, official development assistance (ODA) is a main source of external funding; substantial new and additional funding for sustainable development and the implementation of Agenda 21 will be required. Furthermore, ODA plays a significant role in addressing sustainable development concerns in those areas of the world, as well as in addressing social and environmental concerns and meeting the needs of certain infrastructural sectors which currently are not favourably placed to attract private financial flows, including foreign direct investment. The decline of ODA, both in absolute terms and as a percentage of gross national product (GNP), remains a matter of great concern to the Commission.

3. The Commission urges the developed countries to continue pursuing policies aimed at increasing the flow of ODA to developing countries, consistent with the commitments they made at the United Nations Conference on Environment and Development.

4. The Commission, in its work on monitoring the implementation of recommendations and commitments of Agenda 21 related to ODA, will promote:

(a) New approaches to enhancing the effectiveness of ODA and increasing it within relevant bilateral and multilateral mechanisms with the objective of achieving the United Nations target of 0.7 per cent of GNP, as reaffirmed in chapter 33.13 of Agenda 21, as soon as possible;

(b) Improved cooperation and coordination among national institutions in recipient and donor countries, international organizations (including financial institutions) and the private sector and the non-governmental organizations, as appropriate, inter alia, through the elaboration of national sustainable development strategies and plans, with a view to enhancing the effectiveness of ODA delivery and use;

(c) The use of ODA to leverage additional domestic and external financial resources, through various innovative schemes (such as co-financing and joint ventures, underwriting country risks, and venture capital funds) in order to more efficiently mobilize new financial flows for sustainable development from all potential sources. In this context, the Commission could initiate case studies of national experiences in this area;

(d) Public and political support in donor countries for raising the levels of ODA, including through highlighting its crucial role for sustainable development and reform measures, as appropriate, in recipient countries that increase its effectiveness;

(e) International awareness of the importance of an adequate eleventh replenishment of the International Development Association, which is to come into effect from June 1996.

5. The Commission welcomes the increase in private capital flows, while recognizing that they are concentrated in a few countries and sectors. However, the fact that their stability and sustainability and their environment and technology transfer content are not assured remains a cause for concern for the Commission and require monitoring. Therefore, the Commission invites the United Nations Conference on Trade and Development (UNCTAD) and the international financial institutions, in particular the Bretton Woods institutions, to carry out further studies in this regard, focusing on the high volatility and short-term nature of a substantial part of such flows and proposing measures to stimulate more long-term capital flows and to reduce the destabilizing effects of highly volatile short-term financial flows, and to share the results with the Commission.

6. The Commission emphasizes that developed and developing countries should encourage policies to promote private foreign investment in developing countries that can contribute to sustainable development. In addition, consideration should be given to the establishment of mechanisms and international arrangements to address the effects of sudden outflows of private capital from developing countries.

7. The Commission reiterates the fact that further progress is essential for the achievement of an effective, equitable, development-oriented and durable solution to the external debt problems of a large number of developing countries, particularly the poorest and most heavily indebted among them. The

Copenhagen Declaration on Social Development of the World Summit for Social Development suggests even more favourable terms of debt relief measures. It highlights the importance of ensuring the urgent implementation of existing debt relief agreements and negotiating further initiatives, in addition to existing ones, to alleviate the debt of the poorest and heavily indebted low-income countries at an early date, especially through more favourable terms of debt forgiveness, including application of the terms of debt forgiveness agreed upon in the Paris Club in December 1994, which encompass debt reduction, including cancellation or other debt relief measures; where appropriate, these countries should be given a reduction, of their bilateral official debt sufficient to enable them to exit from the rescheduling process and resume growth and development.

8. The Commission further emphasizes that measures to tackle the problem of external debt should also include the consideration and implementation, where appropriate, of innovative mechanisms such as debt-for-nature and debt-for-social-development swaps. The Commission takes note of successful examples of debt-for-sustainable-development swaps and recommends their further promotion, as appropriate.

9. The Commission urges international financial institutions and all relevant development agencies to continue to increase financial flows for sustainable development. Specifically, these institutions should extend their recent efforts beyond incorporating environmental and social considerations in their projects and activities by integrating economic, social and environmental goals of sustainability from the outset into their institutional mandate, overall development policies, strategy formulation, and priorities established by Agenda 21 and other related international instruments and agreements.

10. The Commission notes the importance of the further development of sustainable development indicators and their possible application, once agreed, which aim at integrating economic, social and environmental goals. The further development of sustainable development indicators should be undertaken in particular developing countries, with the effective participation of all relevant parties.

11. The Commission and the policy-making bodies of the international financial institutions (in particular the Interim and Development Committees) should strengthen communication, interaction and partnership with a view to promoting approaches and activities geared towards meeting the objectives of sustainable development under Agenda 21.

12. The Commission notes that the restructured and replenished Global Environment Facility (GEF) will continue on an interim basis as the entity entrusted with the operation of the financial mechanisms of the Convention on Biodiversity and the United Nations Framework Convention on Climate Change. The Commission emphasizes the importance of the speedy implementation of these commitments and the other responsibilities of GEF and recalls that, at its third session, in 1994, it stated that the first replenishment of the restructured GEF was a first step at a minimum level, and noted that there would be a need for further replenishment of its funds as the implementation of commitments under the various agreements and objectives envisaged for the Facility proceeded

(E/1994/33/Rev.1, chap. I, para. 61). Furthermore, the Commission recommends that GEF procedures be further improved to speed up project implementation without compromising the quality of appraisal and participation. It notes the fact that GEF procedures are being reviewed.

13. The Commission stresses the need for the fulfilment of the financial commitments contained in Agenda 21. The Commission encourages the mobilization of domestic financial resources, inter alia, through the use of economic instruments and policy reforms in both developed and developing countries and the establishment of national environmental funds. It emphasizes that these measures should not be seen as a substitute for the needed increased international financial flows from all sources, including ODA, but that both channels of financing should supplement and mutually reinforce each other.

14. The Commission's review of the use of economic instruments in developed countries, countries with economies in transition and developing countries demonstrates clearly that - depending on their specific conditions - they have in varying degrees attempted to achieve a less distortionary tax system by introducing environmental taxes. In addition, valuable experience is being gained in the use of the various other economic instruments. The Commission emphasizes that future discussions on economic instruments should explore ways and means of overcoming obstacles to their implementation in developed countries, developing countries and countries with economies in transition. Particular attention should be paid to specific country situations and the phasing out of environmentally unfriendly practices, as well as to problems of capacity-building in developing countries and distributional problems.

15. The Commission underscores the importance of strengthening national capacities and capabilities in the use of economic instruments, including the elimination of environmentally unfriendly subsidies and other practices, in the context of national strategies and policies for sustainable development. It recommends that these efforts should be supported by Governments and international organizations, in particular the United Nations Development Programme, the United Nations Environment Programme, United Nations Conference on Trade and Development, the International Monetary Fund, the World Bank and the United Nations regional commissions.

16. The Commission's review of the usefulness of the national environment funds shows that in developed countries, countries with economies in transition and developing countries, there is a great variety of different types of funds at work. In many countries these funds play an important and constructive role as effective financial mechanisms. Their role should be evaluated from the perspective of searching for optimal solutions. In this context, particular attention should be given to the advantages and disadvantages of earmarking funds for environmental expenditures.

17. The Commission will provide leadership in developing further proposals for promoting the exchange of experiences in the implementation of policy reforms for sustainable development.

18. The Commission, in its discussion of innovative mechanisms for resource mobilization, noted that the Inter-sessional Ad Hoc Open-ended Working Group on

Finance considered in a preliminary manner the feasibility and utility of such measures as an environmental user charge on air transport, activities implemented jointly and internationally tradeable CO_2 permits.

19. The Commission notes that the air transport of passengers and cargo is a source of environmentally damaging emissions and considers it worthwhile to examine in detail a properly designed environmental user charge on air transport if an in-depth study demonstrated its need and feasibility. The Commission recommends that such a study be undertaken in cooperation with the International Civil Aviation Organization and other relevant bodies. It also recommends that the study address the environmental, economic, legal, administrative, and political aspects of such a mechanism, taking into account the particular needs and conditions of developing countries.

20. The Commission's discussion on internationally tradeable CO_2 permits and activities implemented jointly reflects concerns and recognition about their extreme complexity and makes it clear that work undertaken in this regard should be pursued in the context of the United Nations Framework Convention on Climate Change, taking into account the situation of countries, particularly the developing countries, as specified in the relevant paragraphs of the Convention. In the context of its discussion, the Commission noted the outcome of the first Conference of the Parties to the Convention, in particular the launching of a pilot phase for activities implemented jointly. The Commission noted that participation in the pilot phase is voluntary and that activities implemented jointly should be compatible with and supportive of national environment and development priorities and strategies, contribute to cost-effectiveness in achieving global benefits and be conducted in a comprehensive manner covering all relevant sources, sinks and reservoirs of greenhouse gases. It notes that no credits are to be provided to any party as a result of greenhouse gas emissions reduced or sequestered during the pilot phase, and that developed and developing countries and countries with economies in transition can be involved in the pilot phase on a voluntary basis.

21. The Commission emphasizes that financing the transfer of environmentally sound technology and biotechnology should be considered in the context of the relevant chapters of Agenda 21. The transfer of environmentally sound technology, on favourable terms, including concessional and preferential terms, as mutually agreed, taking into account the need to protect intellectual property rights as well as the special needs of developing countries for the implementation of Agenda 21, in accordance with chapter 34 of Agenda 21, is highlighted by the Commission as having a particularly important role to play in realizing the goals of sustainable development.

22. The Commission notes that fostering investments in environmentally sound technologies (ESTs) requires that Governments promote a favourable environment for the transfer of technology, the adoption of favourable policies for business development and the creation of a wider framework to encourage investments in the technology development process, including research, development and adaptation of technology. The particular problems of small and medium-sized enterprises were emphasized.

23. The Commission notes that financing of the transfer of ESTs can also be promoted by partnerships between the private and public sector, such as publicly funded intermediaries for EST transfer and publicly sponsored investment funds with a focus on these technologies. Venture capital funds were particularly noted. Furthermore, the Commission recommends that the need for and effectiveness of environmentally sound technology rights banks 1/ and the practical feasibility of establishing such banks should be further studied.

24. The Commission encourages the use of ESTs and such innovative private sector financing mechanisms as build-operate-transfer (BOT) schemes for promoting EST transfer, including building the capacities of developing countries and countries with economies in transition to negotiate BOT contracts.

25. In addressing the financing of biotechnology, the Commission takes note of proposals for several funding support mechanisms such as (a) the establishment of an international biosafety trust fund, (b) the establishment of an international venture capital fund for biotechnology and (c) creation of an expert volunteer corps in biotechnology. These actions require further study and consultations among interested Governments before concrete proposals can be made.

26. The Commission recognizes that many of the sources of finance, economic instruments and innovative mechanisms considered in the Secretary-General's report (E/CN.17/1995/8) are also applicable to financing the transfer of technology and biotechnology sectors. Nevertheless, detailed study would be required on the application of the "matrix approach" and countries may choose the most appropriate mix of instruments and mechanisms.

27. The Commission notes that the analytical framework presented by the matrix contained in the annex to the report of the Secretary-General is illustrative and may help to integrate the application of the range of financial and policy options with individual sectors and cross-sectoral activities, and could prove valuable in identifying the appropriate and most promising options, as well as complementarities, taking into account the social, economic and distributional impact of policy options and the principle of common but differentiated responsibilities.

28. The Commission emphasizes that the "matrix approach" deserves further detailed study, including efforts at making the analysis more pragmatic and comprehensive, quantifying the potential resources generated by the use of different economic instruments and by policy reform measures. Studies should exploit the full potential of the matrix as an analytical tool to assist policy makers, including in examining the appropriate role of public and private actors, and ways and means of promoting interaction and cooperation between them. The Commission encourages Governments, United Nations organizations, international financial institutions, academic and research communities and other actors, including the private sector, to support and participate in these efforts.

29. The Commission recognizes that in pursuing studies on economic instruments, innovative mechanisms and the "matrix approach", full consideration should be given to the concerns of developing countries stated above, including the

mobilization of resource flows, and to promoting national capacities and capabilities, taking into account the social, economic and distributional impacts of policy options and keeping in mind the principle of common but differentiated responsibilities.

30. The Commission expresses its appreciation of the inter-sessional work that has been undertaken to prepare for its deliberations on financial resources and mechanisms. It takes note in particular of the role of the Inter-sessional Ad Hoc Open-ended Working Group on Finance and its report (E/CN.17/1995/11).

31. The Commission invites international financial institutions and development agencies and, as far as practicable, private enterprise, research organizations and non-governmental organizations to participate in its work, including its inter-sessional work. Furthermore, the Commission will seek out valuable national experiences as case-studies, encourage informal technical group meetings and promote pilot projects in order to enhance the effectiveness of its work.

Notes

1/ Environmentally sound technology rights banks are ownership arrangements that act as a broker for acquiring patent rights to sounder technologies and make them available to countries in need of technical assistance, in particular the developing countries, on favourable terms.